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March 14, 2002

William F. Caton
Acting Secretary
Federal Communications Commission
445 Twelfth St., S.W.
Washington, D.C. 20554

**Re: Federal-State Joint Board on Universal Service,
CC Docket No. 96-45**

Dear Mr. Caton:

On behalf of the Palau National Communications Corp. ("PNCC"), I am writing to notify you of an *ex parte* presentation today to Chairman Michael K. Powell and his legal advisor, Kyle D. Dixon, regarding the Petition of PNCC filed on November 16, 2001. The following individuals participated in the presentation: His Excellency Tommy E. Remengesau, Jr., President, Republic of Palau; His Excellency Hersey Kyota, Ambassador of Palau to the U.S.; Mr. Larry Goddard, Counsel to the President; Mr. Carlos Salii, member, Board of Directors, PNCC; Mr. Ed Carter, General Manager, PNCC; Mr. Larry Pressler (former U.S. Senator), representing Republic of Palau; Mr. Manase Mansour, representing Republic of Palau; and the undersigned, counsel to PNCC.

I am attaching the handout we used, which summarizes the presentation. If you have any questions, please contact me.

Respectfully submitted,

David L. Sieradzki
Counsel for the Palau National
Communications Corp.

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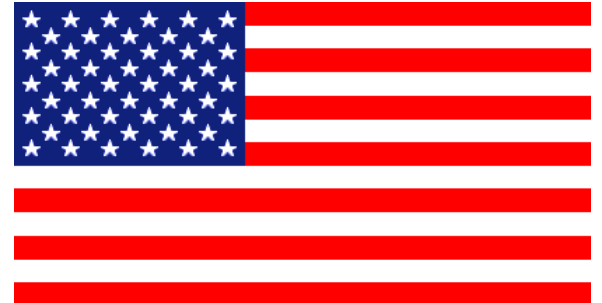
William F. Caton

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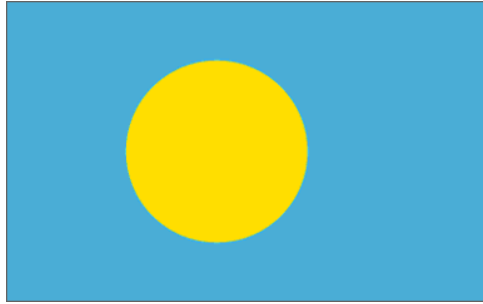
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Enclosures

cc: Chairman Michael K. Powell
Kyle D. Dixon

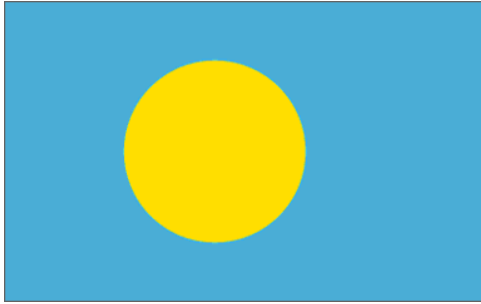


Meeting Between
Tommy E. Remengesau, Jr.,
President, Republic of Palau
and
Michael K. Powell,
Chairman, U.S. Federal Communications
Commission
March 14, 2002



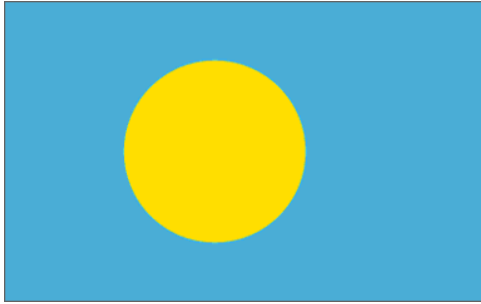
The Republic of Palau

- Palau, with a population of about 19,500, was part of the U.S. Trust Territory of the Pacific from World War II until 1994.
- Since 1994, Palau has been independent but continues to be closely linked to the U.S. under a Compact of Free Association, enacted into U.S. law by Congress in 1986 and ratified by Palau in 1993.
- The Compact commits the U.S. to promoting Palau's economic development.



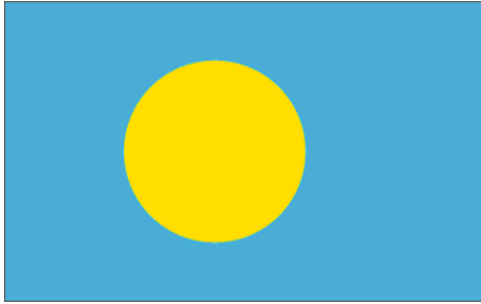
Palau's Unique Relationship With the United States

- The U.S military has exclusive responsibility for and access to Palau for a 50 year period.
 - Palauans are proud to serve in the U.S. armed forces.
 - Palau is a strong supporter of the war on terrorism.
 - Palau is a potentially important national security asset in a volatile part of the world.



Palau's Unique Relationship With the United States

- The Compact includes a 15-year U.S. commitment to help promote Palau's economic development.
 - Although the U.S. government has made available a Compact Trust Fund, Palau has never drawn on that fund since 1994.
- The Compact provides for Palau to continue to participate in certain U.S. domestic programs:
 - The U.S. dollar is the currency of Palau, and the U.S. Postal Service delivers the mail in Palau (postal abbreviation "PW", ZIP code 96940).
 - Palau is treated as a domestic jurisdiction for purposes of programs administered by the U.S. Departments of Agriculture, Commerce, Education, HHS, Interior, Justice, Labor, Transportation, Veterans Affairs, and the EPA.
 - The U.S. has made strategic investments in Palau's infrastructure, including roads, airport and seaport facilities, and communications networks.



Telecommunications in Palau

- PNCC, the government-owned carrier, provides local and long-distance services to fewer than 10,000 customers.
- In 1993, the USDA's Rural Utilities Service loaned \$39.1 million to PNCC to modernize Palau's telecommunications infrastructure.
- PNCC, however, faces a financial crisis, due in part to FCC policies:
 - Revenue losses due to “Benchmark” accounting rate policy and other competitive developments.
 - Substantial difficulties with call completion and service quality on calls from the U.S.
 - The United States has a responsibility to provide universal service funds to place PNCC on a sound financial footing and promote rural/insular telecom development.



The FCC Has Jurisdiction Over PNCC

“The United States Federal Communications Commission has jurisdiction, pursuant to the Communications Act of 1934, . . . over all domestic and foreign communications services furnished by means of satellite earth terminal stations where such stations are owned or operated by United States common carriers and are located in Palau.”

Compact of Free Association, Article III, Section 131(a)(1)

“Palau will be included in the United States telecommunications system for rate-making and other operational aspects relating to United States common carriers.”

Senate Rept. No. 99-403, P.L. 99-658, at 38.



PNCC's Petition Before the FCC

- The Palau Compact specifically directs the FCC to exercise its Communications Act authority over any carrier that:
 - is a United States common carrier;
 - provides domestic and international communications services in Palau; and
 - does so using satellite earth stations that it owns and that are located in Palau.
- For purposes of telecom regulation, the Compact treats Palau as if it were part of the United States (“the Nation”).
 - The FCC can and should interpret “the Nation” to include all areas subject to FCC jurisdiction, including Palau.